Participating Primary Dealers:

Bank of America, Barclays, Belfius Bank, BNP Paribas Fortis, Citigroup, Crédit Agricole CIB, Deutsche Bank, HSBC, J.P. Morgan, KBC Bank, Morgan Stanley, Natixis, NatWest (RBS), Nomura, Société Générale Corporate & Investment Banking

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- MACROECONOMIC DEVELOPMENTS : The global economy showed resilience while global trade was subdued
- FINANCIAL MARKETS AND INTEREST RATES : Ten-year sovereign bond yields fell in Q4 2023 with markets betting that policy rates have peaked
- SPECIAL TOPIC : Will rising interest rates have a snowball effect on the debt-to-GDP ratio ?
- TREASURY HIGHLIGHTS : Details of the 2024 financing plan

CONSENSUS **Average of participants' forecasts**

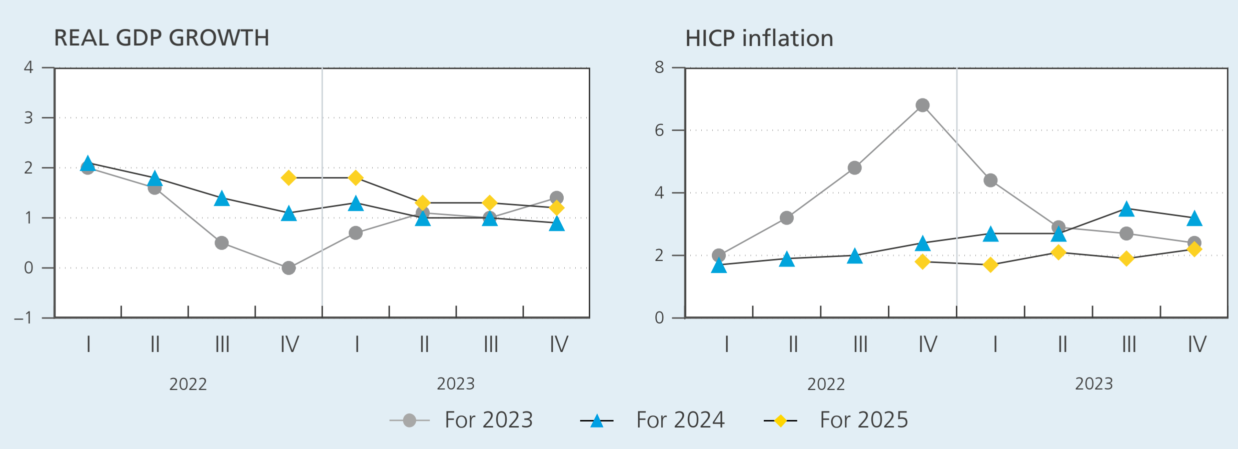
A spreadsheet available on the NBB's website provides more information on the individual forecasts.

	Belgium				Euro area			
	2023e	2024e	2025e	2026e	2023e	2024e	2025e	2026e
Real GDP(1)	1.4	1.0	1.3	1.5	0.5	0.5	1.3	1.4
Inflation (HICP)(1)	2.3	3.3	2.2	1.8	5.4	2.5	2.0	1.9
Government budget balance(2)	–4.7	–4.8	–4.7	–4.7	–3.3	–3.0	–2.8	–2.6
Public debt(2)	105.2	106.3	107.5	108.6	90.2	90.1	89.8	90.0

1 Percentage changes.
2 EDP definition ; percentages of GDP.

FORECASTS FOR BELGIUM

(the lines show the evolution since the start of 2022 of the growth and inflation forecasts for the calendar years 2023, 2024 and 2025)



Source: Belgian Prime News.

The global economy showed resilience while global trade was subdued

The global economy expanded at a relatively steady pace in 2023, primarily due to the performance of the services sector, as industrial activity was sluggish. Forward-looking PMI indicators suggest further industrial weakness heading into the new year. Price pressures around the world have eased in response to tighter monetary policy and cheaper energy. Global trade flows showed protracted weaknesses, and ongoing geopolitical tensions could upset the expected trade recovery in 2024.

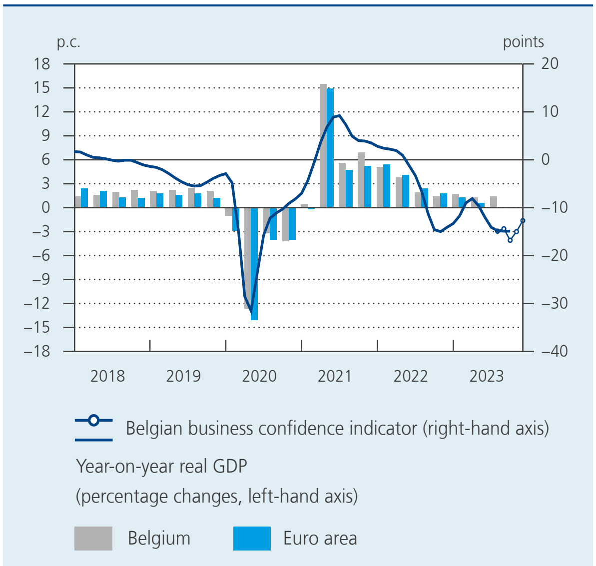
The euro area economy has barely grown over the past four quarters, with the most recent statistics even pointing to negative growth in the third quarter. The latest observations suggest that the PMI indicators are bottoming out but remain in contractionary territory. In terms of the annual outlook, Belgian Prime News (BPN) participants expect the euro area economy to have grown by 0.5 % in 2023. Growth is expected to barely speed up in 2024 and would only return to cruising speed in 2025 and 2026, at around 1.3 %. **This represents another (slight) downward revision for 2024 and 2025 compared to the September consensus forecast.** The detailed data published as an annex to this issue of BPN also reveal a significant degree of uncertainty concerning 2024, as reflected in a very wide range of individual forecasts. **Participants currently expect euro area inflation to come in at 2.5 % in 2024,** down again from the average rate of 5.4 % recorded in 2023, and to reach 1.9 % in 2026.

In Belgium, economic activity been more buoyant than that of the euro area, with quarter-on-quarter growth coming in at 0.4 % in the third quarter of 2023. According to the December Business Cycle Monitor, a marginal decline in growth is the most plausible scenario for the fourth quarter. **BPN participants expect real GDP growth in Belgium to reach 1.4 % in 2023.** The upward revision compared with the September consensus can be traced back to a positive surprise in Q3 and to revised statistics for 2022 which provided an improved starting point. **For the coming years, BPN participants expect real GDP growth to amount to 1.0 % in 2024, 1.3 % in 2025 and 1.5 % in 2026.**

The Belgian labour market continued its robust expansion in the third quarter of 2023, with the addition of another 12 000 jobs. The harmonised unemployment rate remains very low and is expected to stay below 6 % in the coming years, with the labour market remaining quite tight.

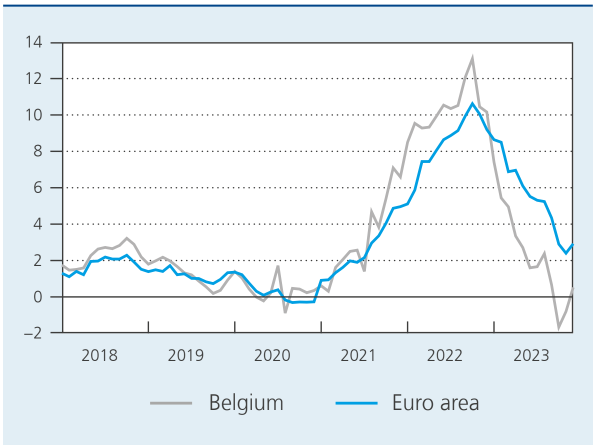
Price pressures eased further and headline inflation even dipped into negative territory in October and November, mainly due to energy prices being a lot lower than a year ago. The December HICP reading was 0.5 %, resulting in an average inflation rate for 2023, as a whole, of 2.3 %. **According to the latest BPN consensus forecast, the headline inflation rate in Belgium is expected to average around 3.3 % in 2024, before dropping to 2.2 % in 2025 and to 1.8 % in 2026.**

GDP GROWTH AND BUSINESS CONFIDENCE



Sources: EC, NAI, NBB.

INFLATION (HICP)
(annual percentage changes)



Source: EC.

On the public finances side, the budget balance is expected to have widened to **4.7 % of GDP in 2023**, compared with 3.5 % in 2022. Due to population ageing and rising interest rates, **BPN participants expect the budget deficit to remain elevated after 2023**. They predict that Belgian public debt will edge upwards in the coming years, from around 104 % of GDP in 2022 to 108.6 % of GDP by 2026.

FINANCIAL MARKETS AND INTEREST RATES

Ten-year sovereign bond yields fell in Q4 2023 with markets betting that policy rates have peaked

In the context of falling but persistently high inflation, the US and euro area central banks kept their policy rates in restrictive territory in the fourth quarter of 2023. The ECB ended its unprecedented streak of ten consecutive rate hikes and held its deposit facility rate at 4 % – its highest level since the introduction of the euro. For its part, the Federal Reserve decided to maintain the target range for the federal funds rate at 5.25 %-5.50 % but signalled its intention to start cutting rates in 2024.

Slowing inflation in advanced economies, a worsening economic outlook in the euro area and market expectations that interest rates have peaked pushed long-term sovereign bond yields in the US and the euro area lower in the final quarter of 2023. The German 10-year bond yield declined by 56 basis points, from 2.66 % in September to 2.10 % in December. The Belgian 10-year government bond yield fell by 62 basis points, ending the year at 2.70 %. The US 10-year bond yield dropped by 36 basis points over the same period, slipping from 4.38 % in September to 4.02 % in December.

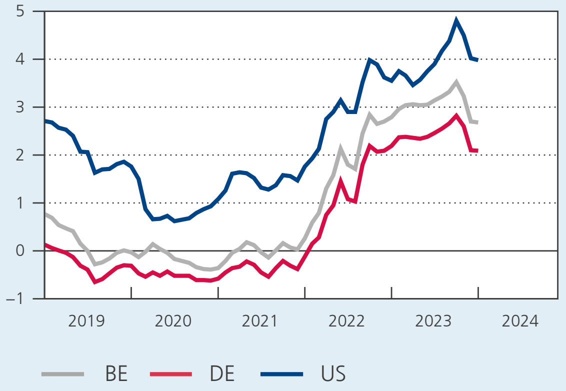
The fall in long-term sovereign yields was accompanied by a high degree of volatility on the bond markets. The MOVE index, which tracks US Treasury yield volatility, remained elevated as markets revised their short-term rate expectations. The US 10-year bond yield initially increased in October when markets were anticipating a higher-for-longer rate environment, but fell back later when expectations shifted towards deeper policy rate cuts in 2024. In contrast, stock market volatility remained relatively low.

The fall in long-term rates and hopes for a "soft-landing" in the US had a favourable impact on financial markets. The Stoxx 600 Europe and S&P 500 gained 6 % and 11 %, respectively, in the fourth quarter. Corporate spreads also eased in the US and the euro area, with the exception of the latter's riskiest segment. Oil prices fell and closed the year at $ 80 per barrel, while spot gas prices hovered below the € 50 per megawatt hour (MWh) mark on the European markets. At the same time, the euro appreciated against the dollar, reaching € 1 to $ 1.11 on 29 December, as markets anticipated that the Fed would begin cutting interest rates earlier than the ECB.

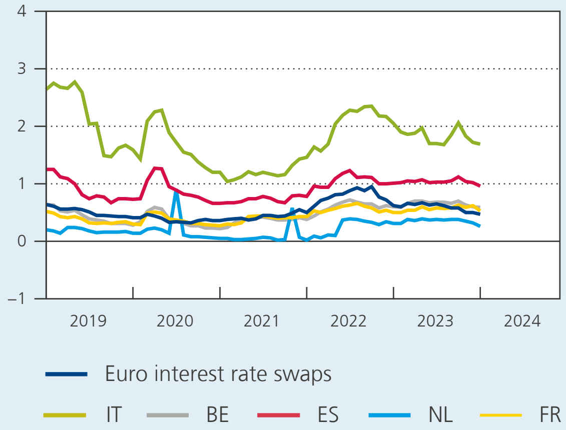
Sovereign spreads vis-à-vis German Bunds also eased marginally in the fourth quarter of 2023 in the euro area, mirroring the fall in corporate spreads. In Belgium, France and the Netherlands, sovereign spreads narrowed by 6, 1 and 5 basis points, respectively. Italian and Spanish spreads also declined by 13 and 4 basis points, respectively, falling to 172 and 102 basis points.

10-YEAR INTEREST RATES
(monthly averages)

GOVERNMENT BONDS
(in %)



SPREADS VIS-À-VIS GERMAN BUNDS
(in percentage points)



Sources : BIS, Thomson Reuters.

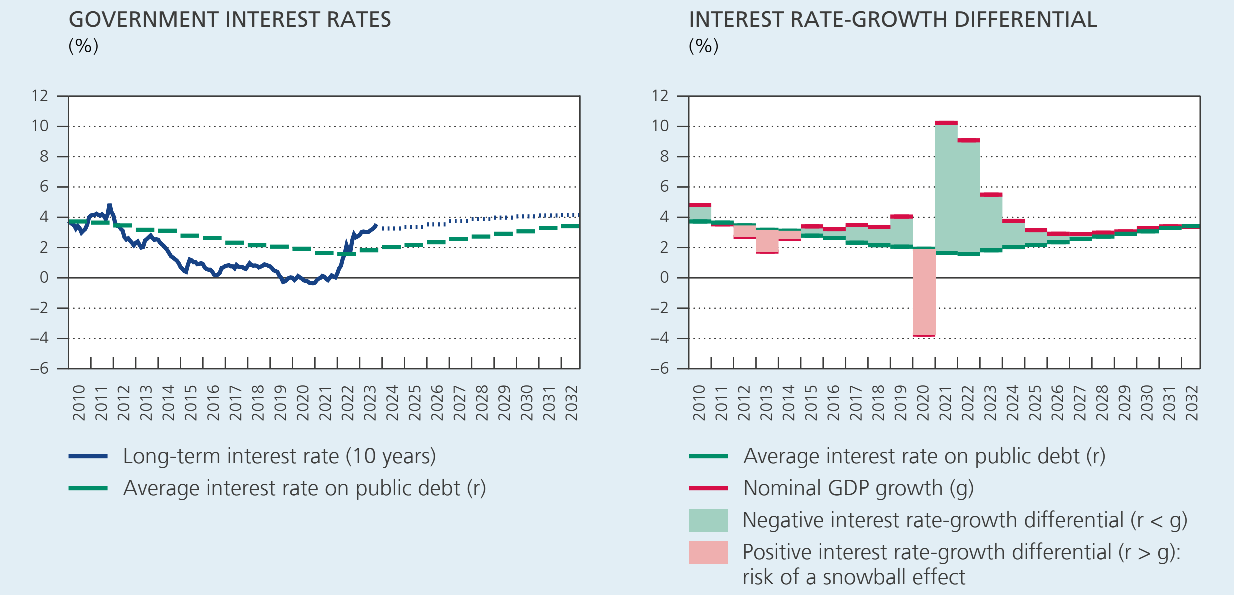
SPECIAL TOPIC

Will rising interest rates have a snowball effect on the debt-to-GDP ratio?

The high inflation seen in 2022 and its persistence in the euro area have led to a tightening of monetary policy and an overall rise in interest rates. For the Belgian government, borrowing rates have also risen. While the 10-year rate was close to 0 % on average in 2021, it exceeded 3 % on average in 2023 (see Figure 1).

These developments have put an end to several years of very low interest rates. According to market expectations in November 2023, that were used for the Bank's December projections, interest rates on government debt will remain high – close to 4 % – over the next few years. However, there is considerable uncertainty as to the trajectory that interest rates will actually take in the coming decade.

Figure 1 HIGHER INTEREST RATES WILL INCREASE THE AVERAGE INTEREST RATE ON PUBLIC DEBT



Sources : NAI, NBB.

A rise in market interest rates is gradually reflected in interest payments when maturing public debt is refinanced [1]. Alongside maturing debt, governments must also finance the budget deficit annually. The higher the deficit, the higher the interest expenses.

To assess the impact of the higher interest rate environment on public finances, it should be estimated how interest payments will play out over the next ten years. This analysis is based on interest rates in 2023 and forward rates are based on market expectations of November 2023 [2] (Figure 1).

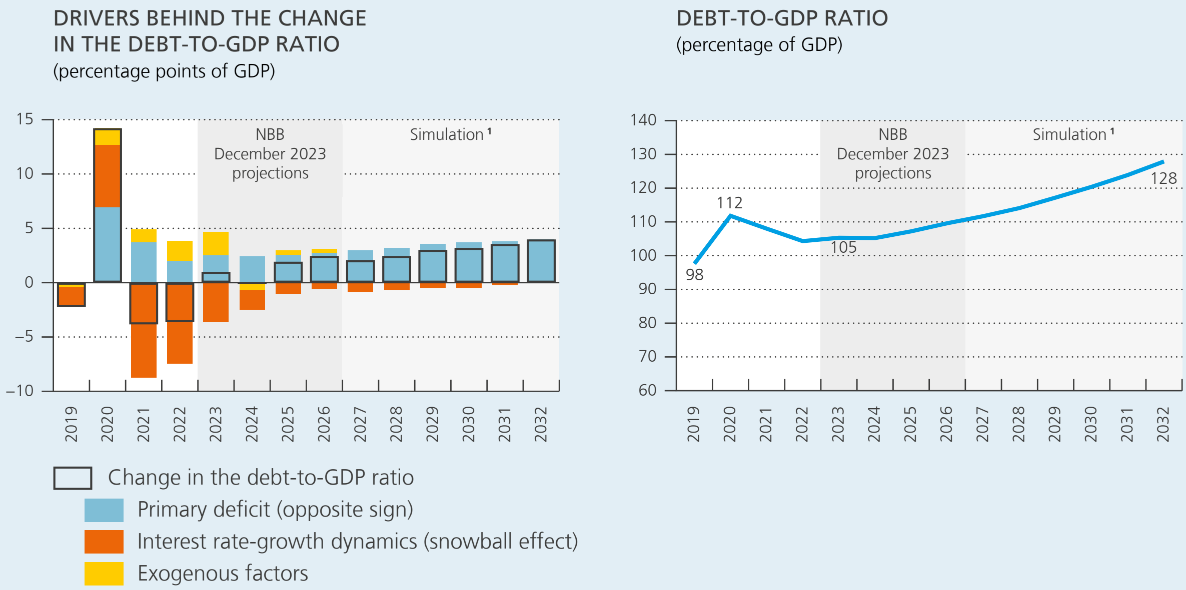
According to our simulation, the average interest rate on public debt rises from 1.8 % in 2023 to 3.4 % in 2032 (Figure 1). As a result, interest expenses are expected to rise from around 1.8 % of GDP in 2023 to almost 4.1 % of GDP in 2032. Over the period 2013-2022, interest expenses fell by 0.2 % of GDP on average per year, thus contributing to an improvement in the budget balance. Over the next ten years, the opposite will occur: interest expenses are expected to rise steadily, by over 0.2 % of GDP per year from 2023 onwards.

Could the increase in the average interest rate on public debt have a "snowball effect" on Belgium's debt-to-GDP ratio? In other words, could it lead to a rapid and self-sustaining rise?

1 The average maturity of federal public debt has risen from approximately six years in the early 2010s to over ten years today. Spreading out debt maturity dates over time enables the government to limit the annual volume of debt securities requiring refinancing.

2 These are the same market expectations as those used for the Bank's December 2023 economic projections. The annual amounts of short- and long-term refinancing are based on information provided by the Belgian Debt Agency and regional authorities. Up to 2026, the results are based on the December 2023 economic projections. From 2027 onwards, real GDP is derived from the December 2023 projections for potential GDP, and inflation is assumed to be 2 % per annum. Estimates of the primary balance from 2027 onwards are based on the primary balance for 2026, increased by the expected annual increase in expenditure linked to ageing costs. Stock-flow adjustments are assumed to be zero.

Figure 2 THE DEBT-TO-GDP RATIO, FUELLED BY INTEREST EXPENSES AND MORE SO PRIMARY DEFICITS, IS SET TO RISE SHARPLY OVER THE NEXT DECADE



Sources: NAI, NBB.
¹ Simulation in which long-term interest rates based on market data reach 4% by 2032 and inflation is set at 2% from 2027, in line with the ECB's target.

According to our simulation, the interest rate-growth differential is likely to remain negative for some time, which is good news. Our estimates show that it will, however, become less and less favourable with positive numbers being no remote possibility. The snowball effect of rising interest expenses would then automatically inflate the debt ratio.

Even if the interest rate-growth differential remains negative, if fiscal policy does not alter course, persistently large primary deficits will strongly push up the debt ratio. Between now and 2032, Belgian public debt would rise from 105 % of GDP to around 128 % of GDP (Figure 2). These developments will obviously depend on the future paths of market rates, economic growth and inflation. As there is considerable uncertainty regarding these parameters, our simulations should be interpreted with caution. Note for instance that in November 2023 the 10-year rate on Belgian OLO's was expected to stay close to 4 %. However, since December, expectations have been revised down, with the 10-year rate currently expected to be around 3.5 % over the next years.

The conclusion remains clear: even with a slightly negative interest rate-growth differential, it will be necessary to reduce the primary deficit in order to reverse the upward trend in the debt ratio. As interest expenses rise, the budgetary effort required to do so will increase. When the average interest rate on government debt exceeds nominal GDP growth, the debt ratio risks growing endogenously and rapidly. It is therefore necessary to eliminate the primary deficit in the coming years.

Details of the 2024 financing plan

2023 financing plan completed

The Belgian Debt Agency has concluded its 2023 financing plan, issuing a total of **€ 45.25 billion** in medium- and long-term debt, corresponding to 100.6% of its **€ 45.0** billion funding target.

Only one auction was held in the fourth quarter of 2023, with the following result:

OLO auctions (€ 3.614 billion)

Date	OLO		Issued (€ billion)	Yield	Bid-to-cover
23 October	OLO 1.25% 22/04/2033	OLO86	0.515	3.477 %	1.63
	OLO 3.00% 22/06/2033	OLO97	1.225	3.586 %	1.24
	OLO 3.30% 22/06/2054	OLO98	1.080	4.140 %	1.27
Non-competitive subscriptions			*0.794*		
October total			3.614		

Moreover, two Optional Reverse Inquiries were held.

ORI (€ 1.002 billion)

Date	OLO		Issued (€ billion)	Yield
3 November	OLO 1.90 % 28/06/2038	OLO76	0.291	3.697 %
	OLO 0.65 % 22/06/2071	OLO93	0.210	3.355 %
November total			0.501	
15 December	OLO 5.00 % 28/03/2035	OLO44	0.276	2.732 %
	OLO 1.90 % 22/06/2038	OLO80	0.225	2.896 %
December total			0.501	

No EMTNs or *Schuldscheine* were issued in the fourth quarter of 2023.

In terms of the portfolio structure, the average maturity of the portfolio remains high at 10.44 years. The implicit cost of the portfolio amounted to 1.87 % at year's end.

2024 financing plan announced

The Belgian Debt Agency expects the federal government's 2024 gross borrowing requirement to amount to € 52.92 billion. This represents an increase of € 3.88 billion compared with the 2023 borrowing requirement, which totalled € 49.04 billion.

To establish this estimate, the Debt Agency assumed that the 2024 net financing requirement would be € 21.48 billion, deriving this figure from the Belgian government's 2024 draft budgetary plan.

Redemptions of medium- and long-term debt in June and October will be substantially higher, at € 29.27 billion. The Debt Agency plans to buy back € 1.50 billion worth of bonds maturing in 2024. In addition, the execution of put and call options on certain instruments could result in the need to borrow an additional € 0.67 billion.

The Belgian Debt Agency plans to issue € 41.00 billion worth of OLOs in 2024, a decrease of € 3.82 billion compared with the € 44.82 billion issued in 2023, and to launch up to three new OLO fixed-rate benchmarks.

Moreover, the Debt Agency expects to issue € 2.00 billion via its EMTN programme or other alternative funding instruments such as *Schuldscheine*.

The issuance of retail notes resumed in June 2022, as rates moved significantly into positive territory. The Belgian Debt Agency expects to issue € 2.00 billion worth of such instruments in 2024.

With regard to short-term funding, the outstanding amount of Treasury Certificates (the programme which was heavily impacted in 2023) is scheduled to increase by € 4.72 billion over the year, while that of one-year State Notes will drop by € 8.4 billion, to € 13.50 billion. The net change in other short-term debt and financial assets should amount to € 11.59 billion.

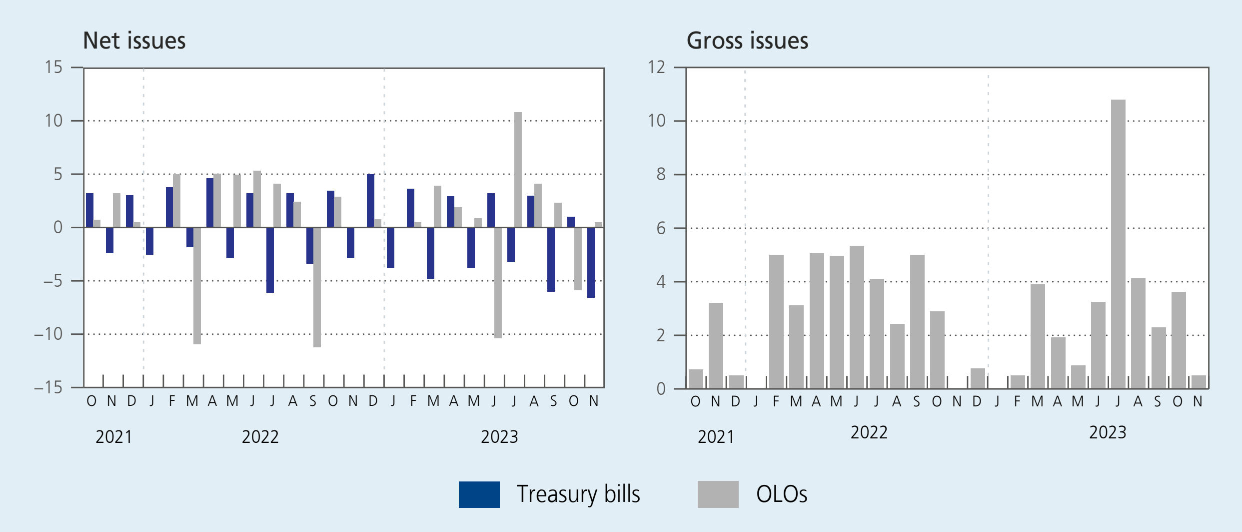
The maximum 12-month refinancing and refixing risks will be kept at their current level (17.50 %) in 2024 . The maximum 60-month refinancing and refixing risks will also remain unchanged (at 42.50 %). As was the case in 2023, the average maturity of the debt portfolio in 2024 is required to be higher than 9.25 years.

€ billion	2024 financing plan	2023 estimate as of December 7 2023
1. Gross financing requirement	**52.92**	**47.30**
• Net financing requirement	21.48	25.67
• Debt maturing in 2024/2023	29.27	21.13
• Planned pre-financing (bonds maturing in 2025/2024)	1.50	0.40
• Other financing requirements [1]	0.67	0.10
2. Funding resources (long- and medium-term)	**45.00**	**45.25**
• OLOs	41.00	44.82
• Euro Medium Term Notes (EMTNs) / *Schuldscheine*	2.00	0.00
• Medium- and long-term State Notes	2.00	0.43
3. Change in short-term debt	**7.92**	**2.05**
• Treasury Certificates [2]	4.72	–13.46
• One-year State Notes	–8.39	21.89
• Other [3]	11.59	–6.39

1 Including put/call options exercised on bonds and net redemptions of Treasury bonds representing Belgian participation in international organisations.
2 Expected outstanding stock of Treasury Certificates on 1 January 2024 : € 20.28 billion.
3 This section includes residual financing instruments complementing the reference instruments mentioned in the previous section, including collateral margin changes. A positive figure represents an increase in the stock of residual financing and/or a reduction in financial assets.

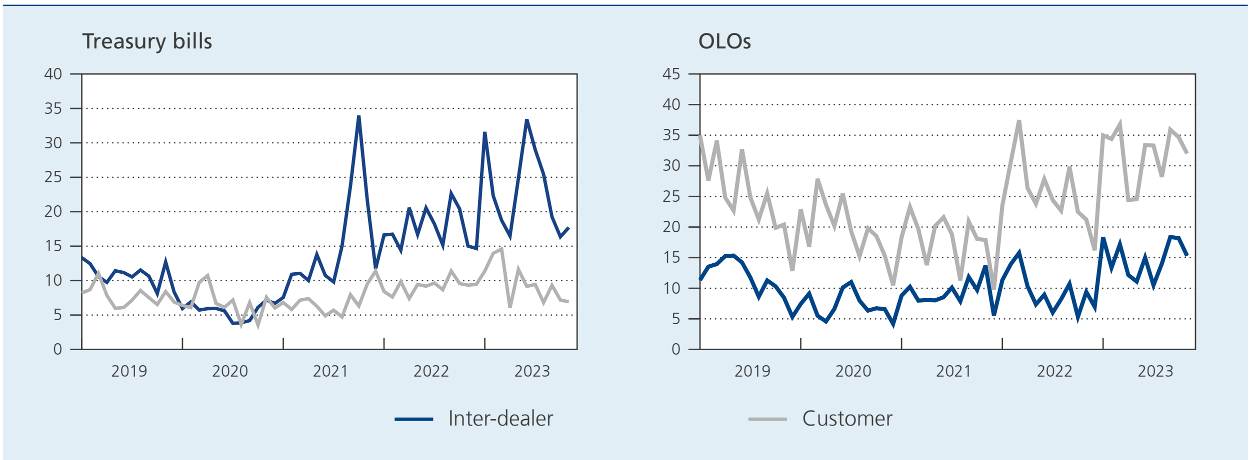
GOVERNMENT SECURITIES STATISTICS

PRIMARY MARKET
(€ billion)



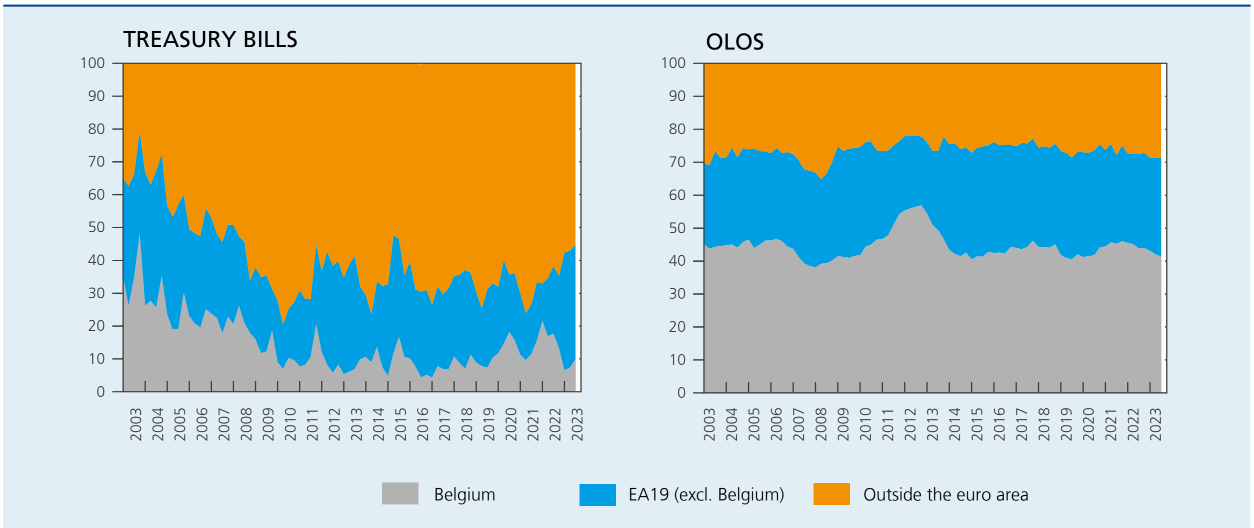
Source: Belgian Debt Agency.

SECONDARY MARKET TURNOVER
(as reported by primary and recognised dealers to the Debt Agency, € billion)



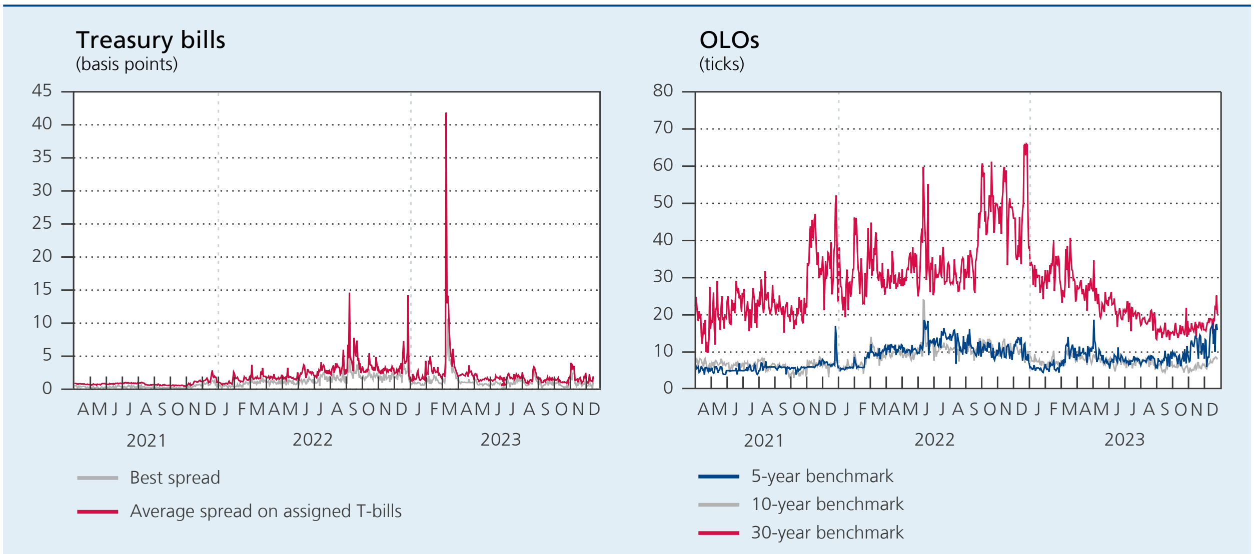
Source: Belgian Debt Agency.

HOLDERSHIP OF BELGIAN SECURITIES
(in %)



Source: NBB.

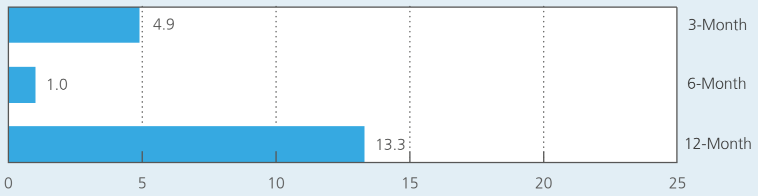
BEST BID/OFFER SPREADS (1)



Source: Belgian Debt Agency.
(1) As reported by three electronic platforms (MTS, Broker Tec and BGC eSpeed).

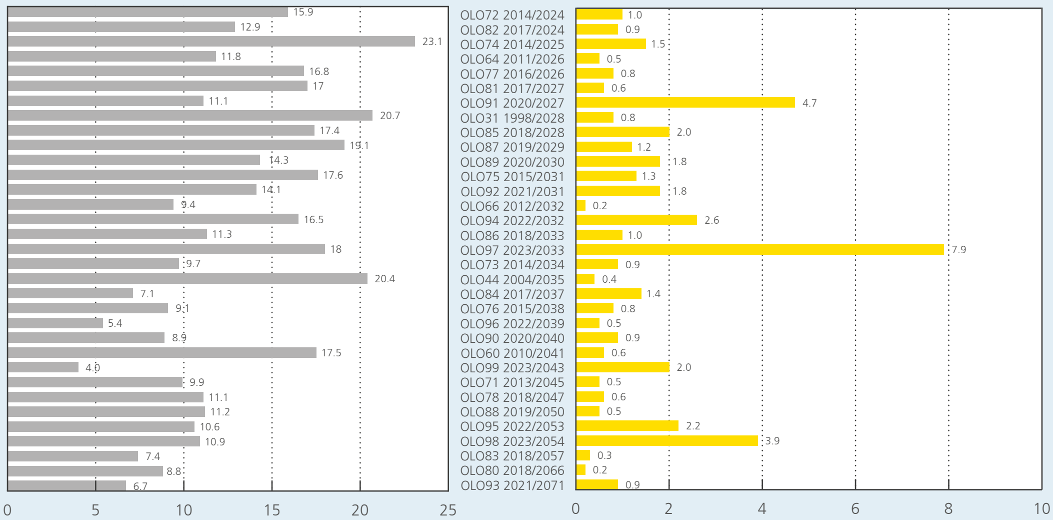
OUTSTANDING AMOUNTS AND TURNOVER
(€ billion)

Treasury bills
Nominal amounts outstanding at the end of Novembert 2023



OLOs
Amounts outstanding on 22 December 2023

Outright turnover in November 2023



Source: Belgian Debt Agency.

LIST OF CONTACT PERSONS

PARTICIPATING INSTITUTIONS	TECHNICAL EDITORS	TELEPHONE	E-MAIL
Belgian Debt Agency	Mr Jean Deboutte	+32 2 574 72 79	jean.deboutte@debtagency.be
Bank of America	Mr Alessandro Infelise Zhou		alessandro.infelise_zhou@bofa.com
Barclays	Ms Silvia Ardagna		silvia.ardagna@barclays.com
Belfius Bank	Ms Catherine Danse	+32 2 222 71 13	catherine.cd.danse@belfius.be
	Ms Annelore Van Hecke		annelore.vanhecke@belfius.be
BNP Paribas Fortis	Mr Philippe Gijsels	+32 2 565 16 37	philippe.gijsels@bnpparibasfortis.com
	Mr Arne Maes	+32 2 312 12 10	arne.maes@bnpparibasfortis.com
Citigroup	Mr Christian Schulz		christian.schulz@citi.com
Crédit Agricole CIB	Mr Louis Harreau		louis.harreau@ca-cib.com
	Ms Marianne Picard		marianne.picard@credit-agricole-sa.fr
Deutsche Bank	Mr Marc de Muizon	+44 20 75 47 76 35	marc.de-muizon@db.com
HSBC	Mr Chantana Sam	+33 1 40 70 77 95	chantana.sam@hsbc.fr
J.P. Morgan	Mr Aditya Chordia		aditya.x.chordia@jpmorgan.com
KBC Bank	Mr Peter Wuyts	+32 2 417 32 35	peter.wuyts@kbc.be
	Mr Hans Dewachter	+32 2 429 80 08	hans.dewachter@kbc.be
Morgan Stanley	Mr Jean-Francois Ouvrard		jean-francois.ouvrard@morganstanley.com
Natixis	Mr Cyril Regnat		cyril.regnat@natixis.com
NatWest (RBS)	Mr Giovanni Zanni		giovanni.zanni@natwestmarkets.com
Nomura	Mr Andrzej Szczepaniak	+44 20 7102 3167	andrzej.szczepaniak@nomura.com
Société Générale Corp. & Inv. Banking	Mr Michel Martinez	+33 1 42 13 34 21	michel.martinez@sgcib.com

GENERAL INFORMATION

National Bank of Belgium	Mr Jef Boeckx	+32 2 221 43 27	jef.boeckx@nbb.be

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